

OCC Report to Congress on Year 2000 Activities Third Quarter 1998

EXECUTIVE SUMMARY

The Office of the Comptroller of the Currency (OCC) continues to actively address the Year 2000 problem. We have been working with the other federal banking agencies to ensure that the banking system is making good progress on its Year 2000 preparations. We also have been working to ensure the OCC's internal systems are Year 2000 ready. The OCC has remediated all of its mission-critical systems, well in advance of Treasury Department deadlines.

Most of the national banks, service providers, and software vendors supervised by the OCC are making good progress in addressing their Year 2000 problems. As of September 30, 1998, 97 percent of institutions are rated "satisfactory", about three percent are rated "needs improvement", and only seven institutions are rated "unsatisfactory". While most of OCC-supervised institutions currently have satisfactory Year 2000 programs in place, national banks are now in the middle of the most difficult phase of the remediation process -- testing. Once financial institutions have completed testing and assessing the risks posed by customers, we will have a more reliable indication of the industry's overall readiness and risk exposure. As a result, bank ratings may fluctuate in the future.

The OCC continues to monitor a number of significant areas of risk facing the banking industry. This report focuses on international issues, readiness of telecommunications and power companies, and public confidence.

- In earlier reports to Congress, we expressed our concern that international Year 2000 remediation efforts were lagging. We are seeing more positive signs that Year 2000 awareness and action is increasing around the world. However, the OCC remains concerned about the potential adverse impact that global Year 2000 problems could have on international financial markets, clearing and payment systems, financial institution liquidity, and overall economic performance.
- Over the past quarter, financial institutions have received more information on the Year 2000 readiness efforts of telecommunications providers and power companies. Telecommunications providers are reportedly making progress toward remediating and testing telecommunications networks, while banks are still receiving less information from power companies.
- The OCC and other FFIEC members believe that educating bank customers about the Year 2000 problem is critical to minimizing unwarranted public alarm. Accordingly, the OCC and FFIEC have suggested several methods that banks can consider to communicate effectively with various types of customers. The OCC will continue to encourage

national banks to develop proactive customer awareness programs and we will continue to work with other FFIEC agencies to develop a coordinated public awareness strategy.

To address these and other Year 2000 related risks, the FFIEC has established the Contingency Planning Working Group to address nine Year 2000 systemic risk issues relating to liquidity, communications, infrastructure, evaluation of key players, international/payment systems, fraud, nonviable institutions, service providers and software vendors, and sharing interagency resources.

EXAMINATIONS OF FINANCIAL INSTITUTIONS

Update of Year 2000 Examination Activities

Based on the results of the OCC's Year 2000 supervisory activities to date, the vast majority of national banks are on schedule to meet the Federal Financial Institutions Examination Council's June 30, 1999 deadline to complete their Year 2000 remediation efforts. As of September 30, 1998, 97 percent of institutions are rated "satisfactory", about three percent are rated "needs improvement", and only seven institutions are rated "unsatisfactory." (See Table 1 for a summary of Year 2000 ratings of national banks, federal branches and agencies, service providers and software vendors.) These third quarter ratings are similar to the second quarter ratings, in which 96 percent of institutions were rated satisfactory, four percent were rated needs improvement, and eight institutions were rated unsatisfactory. Both the second and third quarter ratings were substantially higher than the first quarter ratings, in which 87 percent of institutions were rated satisfactory, 13 percent were rated needs improvement, and 17 institutions were rated unsatisfactory.

Table 1
Year 2000 Summary Evaluations
By Asset Size
September 30, 1998

<i>Evaluation</i>	<i><\$100MM</i>	<i>\$100MM to \$500MM</i>	<i>\$500MM to \$1,000MM</i>	<i>Over \$1B</i>	<i>Overall Percent (# Institutions)</i>
<i>Satisfactory</i>	96%	98%	98%	98%	97% (2,663)
<i>Needs Improvement</i>	3%	2%	2%	2%	3% (79)
<i>Unsatisfactory</i>	< 1%	< 1%	0%	< 1%	<1% (7)
<i>Number of Institutions</i>	1,562	890	118	179	2,749

Source: OCC Year 2000 Database

Despite the industry's good progress to date, the OCC finds that some institutions are experiencing difficulty in implementing comprehensive Year 2000 testing programs. Specifically,

during the third quarter, the OCC found that institutions that were rated less than satisfactory demonstrated several common problems and deficiencies, including:

- Inadequate testing programs;
- Inadequate vendor management;
- Incomplete remediation contingency plans;
- Failure to meet FFIEC timeframes; and
- Incomplete assessments of customer Year 2000 risk.

While national banks' overall progress to date are encouraging, it is important to note that the OCC's Year 2000 ratings are no more than a point-in-time snapshot of the industry's progress and cannot necessarily predict the ultimate success of the industry's Year 2000 remediation efforts. In some respects the improvement in ratings is the result of relatively straightforward corrections of process deficiencies. It is important to recognize that financial institutions are now undertaking the most difficult phase of the remediation process -- testing. The OCC anticipates that ratings are likely to continue to fluctuate, particularly in the event institutions encounter problems during the testing phase. Once financial institutions have completed testing and assessing the risks posed by customers, the OCC will have a better indication of the industry's overall readiness and risk exposure.

In recognition of the important role that third-party service providers and software vendors play in processing data and developing software, the OCC and the other FFIEC agencies examine hundreds of service providers and software vendors. The OCC is the lead agency in examining five service providers under the Multi-Regional Data Processing Servicers (MDPS) program and four software vendors under the Shared Application Software Review (SASR). In addition, the OCC supervises and examines 31 independent data centers (IDCs) used by national banks and 69 banks and affiliated servicers that provide data processing services to non-affiliated financial institutions. Table 2 provides a summary of Year 2000 evaluations of OCC-supervised service providers and software companies.

While we expect the vast majority of national banks that rely on service providers and software vendors will be ready, we anticipate that some banks will experience problems. Because it can take up to three to six months for small- to medium-size institutions and over a year for large, complex banks to convert to new service providers, we are gathering information in upcoming examinations to determine the industry's capacity to absorb non-compliant institutions.

Table 2
Year 2000 Summary Evaluations

**Service Providers and Software Vendors
September 30, 1998**

<i>Summary Evaluation</i>	<i>OCC Supervised MDPS</i>	<i>OCC Supervised SASR</i>	<i>OCC Supervised Independent Data Centers</i>	<i>OCC Supervised Institutions serving Non- Affiliated Institutions</i>	<i>Total</i>
<i>Satisfactory</i>	5	4	35	70	114
<i>Needs Improvement</i>	0	0	0	2	2
<i>Unsatisfactory</i>	0	0	0	0	0
<i>Total</i>	5	4	35	72	116

Source: OCC Year 2000 Database

Enforcement

The OCC is using a variety of enforcement tools to effect prompt remedial action by financial institutions which are rated less than satisfactory.¹ The OCC's enforcement policy is determined largely by: (1) an institution's Year 2000 summary evaluation; (2) an institution's progress in complying with any previously issued supervisory directive or other informal or formal enforcement action; (3) the cooperation, responsiveness, and capability of the institution's management and board of directors; and (4) the time remaining prior to the Year 2000.

Through September 30, 1998, the OCC has issued 298 Supervisory Directives, entered into four Memoranda of Understanding and six Formal Agreements, obtained one commitment letter, and

¹ A Supervisory Directive is a written instruction from the OCC to bank management ordering the bank to take specific corrective actions necessary to remediate a noted Year 2000 deficiency. It is considered an informal enforcement action. A Memorandum of Understanding is a two-party agreement between the OCC and the bank that is used to reflect the bank's commitment to correct its problems. A Commitment Letter is a unilateral document that the bank sends to the OCC. Both are considered informal enforcement actions. A Formal Agreement is an agreement between the OCC and the bank that the OCC uses to require the bank's commitment to correct deficiencies. Violation of a Formal Agreement can be used as the basis for a cease and desist order and result in the imposition of a civil money penalty (CMP). A Consent Order is a Cease and Desist Order issued with the consent of the institution. It is similar in content to a Formal Agreement but, in addition to the assessment of CMPs for violations, the order can be enforced through an action for injunctive relief in federal district court. A Safety and Soundness Order is similar to a Consent Order, but it is imposed unilaterally by the agency following notice of failure to adhere to safety and soundness guidelines. Pursuant to 12 U.S.C. § 1831p-1, the Federal banking agencies may require a bank that violates safety and soundness guidelines or regulations to file an acceptable corrective plan. Further, if the bank fails to submit or implement a plan, the agency may issue a "Safety and Soundness Order." The agencies issued on October 15, 1998 interim "Interagency Guidelines Establishing Standards for Safety and Soundness." See 12 C.F.R. Part 30, Appendix A. Formal Agreements, Consent Orders, and Safety and Soundness Orders are public documents; Supervisory Directives, Commitment Letters, and Memoranda of Understanding are not.

initiated the Safety and Soundness Order process against four banks. In addition, the OCC has issued a Consent Order with an independent service provider, which has servicing contracts with three national banks, that received an “unsatisfactory” Year 2000 summary evaluation.

The Phase II Workprogram

The FFIEC adopted the Phase II Workprogram in June 1998, which is designed to be used through the first quarter of 2000. These examination procedures focus primarily on the validation (testing) and implementation phases of the Year 2000 project plans and contingency planning. Under the Workprogram, the OCC plans to complete two onsite examinations by June, 1999. The first, targeted for completion by January 1999, will focus primarily on banks’ testing plans. This examination will ensure that each institution has an adequate test plan in place prior to commencing its testing program. The second, to be completed early in the third quarter of 1999, will assess testing results and contingency planning efforts. This examination will identify institutions that are experiencing difficulties completing their testing programs or have not developed sufficient contingency plans.

The OCC’s supervisory strategy should provide adequate time for the agency to take corrective action should testing plans prove inadequate. The OCC will continue to conduct more frequent Year 2000 on-site examinations in those banks with inadequate remediation programs. Additionally, OCC examiners are continuing to conduct quarterly reviews at each national bank to update our Year 2000 tracking system.

Completion of the OCC’s Year 2000 supervision work continues to require, a redirection of some resources away from non-Year 2000 supervision activities. This has resulted in some delays in beginning regular on-site exams in small, highly rated, low-risk banks. However, we have not reduced our normal program of quarterly off-site reviews of all national banks during which we review each bank’s current financial condition, update its risk profile, and revise our supervisory strategy as necessary to address any areas identified as having increasing risk.

Examination Support

Expertise. The OCC’s Year 2000 supervisory strategy includes a program to help our examiners address problems they encounter by providing them with support from technical experts, including OCC information technology staff and outside consultants.

- **Rapid Response Team.** The OCC has formed a rapid response team of information technology (IT) and contracted experts to help examiners who request assistance on a particular examination. The team is assisting examiners in assessing testing processes in banks with complex operations and is now assessing the impact of Year 2000 problems on the operations of banks with substantive testing problems or that are significantly behind FFIEC time deadlines.

- Centralized Review of Data Centers. During the month of September, a team comprised of examiners from the Bank Information System (BIS) cadre and Year 2000 consultants reviewed the testing plans of a sample of service providers and software vendors supervised by the OCC. This centralized review was designed to provide consistent and in-depth review of testing plans. It has helped us to identify key issues for the OCC to consider when assessing testing plans of not only service providers and software vendors, but also their client banks.
- Year 2000 Help Desk. The OCC continues to support examinations through its Year 2000 “help desk.” Policy and operations staff, assisted by expert staff from our Information Technology Services unit, answer questions and assist examiners. OCC examiners ask questions by sending e-mails and faxes to our Year 2000 Supervision Policy unit. Answers to questions are posted on the OCC’s internal Year 2000 webpage.

Environmental Systems. The OCC is evaluating the Year 2000 plans for environmental systems of the 30 largest national banks. The findings from the reviews are factored into the overall Year 2000 assessment of each of these banks. The environmental systems reviews began in September, and are scheduled for completion in the first quarter of 1999.

Training. The OCC has an extensive and ongoing training program.

- Initiatives completed since the last report include:
 - ▶ Developing a CD-ROM-based training tool that all OCC employees can use to get general information on the Year 2000 problem, FFIEC guidance, and the OCC’s supervisory activities. The OCC plans to make available in December a slightly modified version of this CD-ROM to all national banks.
 - ▶ Holding a series of conference calls to keep examiners apprised of the latest Year 2000 developments, answer questions, and address examination issues. The conference calls, began in early September, will be held every four to six weeks, and will continue for as long as they are necessary.
 - ▶ Designing and scheduling additional training that will focus on assessing testing results and business resumption contingency planning. We expect to conduct this training during the first quarter of 1999.

Testing. Testing is the most critical step in ensuring that Year 2000 remediation efforts work effectively. To better monitor bank efforts and assist our efforts to identify banks with significant deficiencies, the OCC is collecting various data on each national bank’s testing program. As of September 30, 1998, about 60 percent of financial institutions examined by the OCC had begun the validation phase for mission-critical systems, an increase from 25 percent in June 30, 1998.

The OCC and the other FFIEC agencies continue to participate in industry-sponsored conferences and seminars to emphasize the importance of testing and to answer questions regarding FFIEC expectations. We are working closely with the Bank Administration Institute on its efforts to coordinate Year 2000 testing among participating bank and we are continuing to monitor the efforts of the Mortgage Bankers Association in their efforts to coordinate testing of mortgage banks and mortgage-related Government Sponsored Enterprises.

RECENT FFIEC GUIDANCE

Q&A on Year 2000 Contingency Planning

In December, the FFIEC plans to release “Questions and Answers Concerning Year 2000 Contingency Planning.” This guidance responds to frequently asked questions of financial institutions concerning Year 2000 contingency planning. The Q&A guidance describes a number of important issues related to effective contingency planning, including the factors that financial institutions should consider in developing business resumption contingency plans. In developing Year 2000 business resumption contingency plans, the FFIEC Q&A document states that financial institutions should consider: educating customers about the Year 2000 problem in order to minimize unwarranted public alarm that could cause serious problems for financial institutions and their customers; evaluating the cash demands of a financial institution’s customers to determine whether it needs to arrange for additional cash reserves; anticipating unusual funding needs in late 1999 and early 2000 arising, for example, from a surge in deposit outflows or loan demand; ensuring that financial institution employees are trained to implement Year 2000 business resumption contingency plans; and validating the Year 2000 business resumption contingency plan using an independent and qualified source. The FFIEC expects financial institutions to substantially complete the four phases of the business resumption contingency planning process as soon as possible, but not later than June 30, 1999.

Safety and Soundness Standards

On October 15, 1998, the OCC, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision issued Year 2000 guidelines establishing minimum standards for safety and soundness under section 39 of the Federal Deposit Insurance Act (12 U.S.C. § 1831p-1). The Year 2000 safety and soundness guidelines are based on FFIEC Year 2000 guidance on testing, contingency planning, customer risk, customer awareness, and the project management process. The guidelines distill certain essential requirements from these prior issuances and they are fully consistent with those prior issuances. The guidelines were effective upon publication, but subject to a comment period which expires on December 14, 1998.

Under section 39, standards adopted as guidelines vest the banking agency with discretion to take rapid and effective action with respect to banks that violate the guidelines. Specifically, the agency can require a violating bank to provide an acceptable plan for becoming compliant with

the guidelines. If a bank either fails to provide an acceptable plan or fails to implement that plan, the agency may issue a Safety and Soundness Order, which is immediately enforceable to the same extent as a Cease and Desist Order issued under 12 U.S.C. § 1818. The section 39 safety and soundness guidelines and remedies are especially appropriate to deal with the Year 2000 problem because section 39 permits prompt and effective supervisory action. With the century date change rapidly approaching, the banking agencies may not have time to use conventional enforcement remedies under 12 U.S.C. § 1818.

The guidelines describe certain essential steps that each national bank must take to ensure its mission-critical systems are Year 2000 ready. For example, the guidelines require a bank to ensure the involvement of the board of directors and management in its Year 2000 efforts, adopt a project plan, update its mission-critical systems, complete tests of these updates by specific testing deadlines, plan for contingencies, and manage customer risk. If a bank has developed and adopted plans and procedures to achieve Year 2000 readiness, it need not prepare new plans and procedures just to satisfy the guidelines. Plans and procedures adopted will suffice if our review indicates that they are acceptable.

OUTREACH EFFORTS

As of November 30, 1998, OCC representatives from the Washington headquarters office have participated in 93 outreach meetings with various groups, including bankers, service providers, software vendors, and other representatives from the financial community. In conjunction with the other FFIEC agencies, we have held regular meetings to discuss Year 2000 issues with representatives from the Bank Administration Institute, American Bankers Association, Independent Bankers Association of America, and other financial institutions trade associations. The OCC, through its six district offices, have sponsored outreach programs with community, mid-sized, and credit card banks within each district. In addition, district office management and staff have participated in approximately 124 outreach meetings around the country sponsored by the FFIEC and state bankers associations. To date, over 11,300 bankers have participated in meetings held in 38 states.

MAJOR RISK FACTORS AND CONCERNS

The following is a brief overview of the significant risk factors facing the banking industry -- international, infrastructure, and public confidence -- and the OCC's efforts to address these risk factors.

International

International Year 2000 Status. Based on recent information obtained from our examinations of internationally active national banks, as well as through external outreach activities, we are seeing more positive signs that Year 2000 awareness and action is increasing around the world. For example, more information regarding the Year 2000 remediation and testing programs of many

key foreign private and public sector entities is becoming available. However, it is troubling that some countries are just now initiating Year 2000 awareness programs.

The OCC remains concerned about the global state of Year 2000 preparedness and the potential adverse impact that Year 2000 problems could have on international financial markets, clearing and payment systems, financial institution liquidity, and overall economic performance. Operational breakdowns caused by insufficient Year 2000 preparations by a major global financial firm could cause significant liquidity pressures for market participants. In addition, unwarranted reaction by market participants and the general public to potential Year 2000 disruptions could precipitate instability in the global financial markets. Active governmental and private sector communication efforts are necessary to reassure the public that appropriate corrective measures are being taken to address the Year 2000 problem in the global financial market.

Gathering information on the Year 2000 readiness of vital infrastructure platforms abroad has been difficult. In recent months, however, international infrastructure associations, such as the International Telecommunications Union, have become more responsive to requests for information on Year 2000 risk of their members.

OCC's International Year 2000 Activities. The OCC is working with other bank supervisors through bilateral and multilateral discussions to develop Year 2000 examination procedures and Year 2000 contingency planning guidance for international financial market supervisors. The OCC is an active contributor to the Basle Committee on Banking Supervision and the Joint Year 2000 Council.² Through our participation in the Basle Committee, we have helped to focus international bank supervisors on the global significance of the Year 2000 issue. For example, the OCC has helped to develop cross-border Year 2000 coordination principles and examination procedures, and we are currently working to develop guidance on Year 2000 contingency planning for international bank supervisors. In addition, we are working with the Basle Committee to develop an international survey on the preparedness of individual countries. This survey follows up on a 1997 Basle Committee survey. The Basle Committee intends to provide survey results to the supervisory authorities in all the countries that participated in the survey.

The OCC is collaborating with the Global 2000 Coordinating Group.³ The group currently consists of over 80 financial institutions and associations representing over 30 countries. The OCC attends the regional Year 2000 round table meetings that are sponsored by this group every six weeks. Through this effort, we obtain vital information on global financial industry's

² The Basle Committee formed the Year 2000 Task Force to facilitate information-sharing and Year 2000 supervision policy coordination among bank supervisors. The Joint Year 2000 Council is a multilateral group of international financial market regulatory authorities that facilitates information sharing on regulatory and supervisory Year 2000 strategies, develops contingency planning measures, and establishes links with national and international private sector organizations.

³ The Global Year 2000 Coordinating Group includes representatives from financial institutions and associations in multiple markets (e.g., banking, securities, insurance) and from over 30 countries.

collective Year 2000 efforts. The Global 2000 Coordinating Group has initiatives underway to identify areas where cross-border coordination could facilitate efforts by the global financial community to improve global Y2K readiness of trading, settlement and payment systems; to coordinate testing schedules in key financial markets; to develop firm readiness self-assessments templates and to encourage public disclosure of these self-assessments; to discuss possible contingency measures; and to foster coordination between international public and private sector Year 2000 programs.

On October 5-6, the OCC offered a Year 2000 seminar in Mexico City, Mexico for the benefit of members of the Association of Banking Supervisors of Latin America and the Caribbean. Over 30 senior foreign bank examiners participated in this event. The OCC also recently participated in a Latin American Regional Year 2000 Roundtable sponsored by the Joint Year 2000 Council in Miami on November 23-24 and will assist in a Year 2000 Examiner Training Conference for Latin American Bank Supervisory authorities in Santiago, Chile on December 8-10.

As part of the OCC's ongoing efforts to gather information on international Year 2000 risk, our Global Banking Division is collecting global Year 2000 readiness information through our examinations of internationally active national banks and federally licensed branches and agencies of foreign banks, outreach activities with global market participants, and contacts with domestic and foreign supervisors. In addition, several senior OCC examiners have visited foreign countries to assess the readiness of major foreign banks and efforts being made by foreign bank supervisors. The information we are collecting will help the OCC identify and assess the Year 2000 progress of international financial systems, clearing and settlement systems, and infrastructure providers that could have an impact on the operations of U.S. banks. The OCC is also exploring ways to share this information with our fellow regulators.

Infrastructure (Telecommunications/Power)

Over the past quarter, national banks and federal branches and agencies have received more information on the Year 2000 readiness efforts of telecommunications providers and power companies. Many institutions report that their telecommunications providers are making adequate progress toward remediating and testing telecommunications networks. Less information has been forthcoming from power companies.

The OCC continues to remind financial institutions to gather information from and assess Year 2000 readiness efforts of, all mission-critical service providers, including telecommunications providers and power companies. As part of the Phase II Workprogram, OCC examiners will review progress of national banks' efforts to assess Year 2000 readiness of infrastructure providers.

The OCC continues to be an active participant in the Financial Institutions Subgroup of the President's Council on Year 2000 Conversion. On behalf of the Council, the regulators are sponsoring a series of on-day summit meetings with the industry on the Year 2000. On December

3, 1998 the FDIC and Federal Reserve sponsored a conference to address infrastructure issues, particularly those related to telecommunications and power companies. On March 9, 1999, the OCC is co-sponsoring with the OTS a one-day Year 2000 summit to address contingency planning. In addition, the OCC participates in the monthly meetings of the Securities Industry Association Facilities Subgroup and disseminates information to its examiners and to the other FFIEC agencies. The OCC also participates in the bi-weekly conference calls of the Bank Administration Institute's Facilities Subgroup to discuss infrastructure issues with participating bankers.

Public confidence

The OCC and the other federal financial regulators believe that educating bank customers about the Year 2000 problem and the progress the industry is making to address the problem is critical to maintaining public confidence in the banking system. As the time grows nearer to the century date change, banks and their regulators must continue efforts to educate consumers.

Earlier this year, the FFIEC issued guidance instructing financial institutions to provide complete and accurate responses to questions and concerns their customers raise and to develop a customer awareness program by September 30, 1998. We advised banks to establish appropriate communications channels to respond effectively to customer inquiries and to respond to customers should unfavorable events occur.

The OCC and the other federal banking agencies have released information on the industry's Year 2000 remediation efforts, including the OCC's quarterly reports to the Congress on Year 2000 supervisory efforts and quarterly letters from the Acting Comptroller to national bank CEOs. These documents are publicly available on the OCC's Internet web page (www.occ.treas.gov). OCC officials also have discussed the aggregate industry ratings at numerous industry conferences, OCC-sponsored outreach events, and in response to inquiries from the industry and the press. Going forward, the OCC will include a section on Year 2000 remediation in our report on the condition of the banking industry, which we release publicly each quarter.

The OCC also has clearly communicated to banks that our public awareness efforts cannot be a substitute for aggressive outreach programs by the banks. The OCC believes financial institutions are in the best position to communicate with their customers. Accordingly, the OCC and the other federal financial regulators have suggested several methods that banks can consider to communicate effectively with various types of customers. For example, banks should consider providing informational brochures or other written disclosures in monthly or quarterly statements; establishing toll-free hotlines for customer inquiries; holding seminars to discuss the Year 2000 problem and efforts the financial institution is taking to prepare for the century date change; and developing Internet sites, or dedicating a portion of their existing site, to inform customers of their Year 2000 preparedness. While banks can and should disclose as much information to their customers as appropriate, supervisory agencies have reminded them that they are not authorized to disclose their Year 2000 supervisory ratings and the contents of the examination reports.

FFIEC CONTINGENCY PLANNING

The OCC chairs the FFIEC Contingency Planning Working Group, which was formed to address Year 2000 systemic risk concerns. Nine subgroups began meeting in early October to prepare recommendations for possible interagency action to better manage and mitigate potential Year 2000 risks. Final subgroup recommendations are scheduled to be considered by the FFIEC by March 1, 1999. The following is a brief description of the nine subgroups to address liquidity, communications, infrastructure, key players, international payment systems, fraud, nonviable institutions, service providers and software vendors, and sharing resources:

- The liquidity subgroup will identify potential systemic Year 2000 liquidity issues and propose regulatory action to manage or mitigate Year 2000 risk that may be experienced in both the wholesale and retail markets.
- The communications subgroup will evaluate the agencies' communications strategies and plans relating to the Year 2000 to determine where overlap exists and what efforts might be undertaken jointly. It also will develop and implement a plan for sharing information on the industry's Year 2000 remediation efforts and communicating it to the public before, during and after the century date change.
- The infrastructure subgroup will assess the ability of the interagency group, in coordination with other governmental agencies (e.g. the President's Council) and trade associations (e.g. SIA), to influence the activities of the infrastructure providers through interaction with infrastructure provider regulators, trade groups, and the providers themselves.
- The subgroup responsible for the evaluation of key players will develop an interagency framework for the evaluation of those financial services firms that participate most significantly in "strategic markets," that is, those markets in which even a temporary disruption could have significant implications to the broader capital markets.
- The international payment systems subgroup will develop strategies to facilitate information sharing regarding Year 2000 preparedness in foreign countries among banking agencies, public and private sector groups, and market participants. The objective is to develop recommendations on how to respond to expected and unexpected contingencies with a focus on communication and coordination with domestic and international regulators, and private sector participants.
- The fraud subgroup will develop guidance to be used by staff, the FFIEC member agencies' regulated financial institutions, and the public to increase their vigilance to avoid Year 2000-related fraud. The guidance may focus on how to deal with potential fraud problems and contain suggestions for identifying risk areas and resources for use in developing anti-fraud programs.

- The nonviable institutions subgroup will work to develop the legal basis to resolve institutions from a Year 2000 perspective; study the feasibility of adopting a standard data set of information that each institution would be required to maintain on back-up tapes; set-up procedures for interagency cooperation on clearing bidders to participate in the Year 2000 resolution process; and develop a set of instructions and templates to be used by the examiners to prepare the Information Package for any institution failing due to a Year 2000 problem or resulting liquidity crisis.
- The service providers and software vendors subgroup will address issues concerning the critical role of potential Year 2000-related disruptions at significant service providers and software vendors that service multiple financial institutions.
- The sharing resources subgroup will work to identify agency resources and staff with the range of critical skills necessary to address potential problems and operational/funding issues arising from the Year 2000-century date change. The subgroup also is responsible for developing the information, processes, and procedures necessary to allow each of the agencies to appropriately share resources in the context of Year 2000 initiatives and/or problems.

In addition, the OCC plans to develop contingency plans to address credit risk concerns associated with Year 2000-related operational issues.

OCC INTERNAL REMEDIATION EFFORTS

Overview of OCC's internal Year 2000 remediation efforts

The OCC completed Year 2000 renovation and validation of all mission-critical systems on November 30, 1998, well in advance of Treasury Department deadlines.

Mission-Critical IT Systems. The OCC identified 13 mission-critical information technology (IT) systems that support the key business functions of the agency.⁴ One of the 13 is now retired (Trust Billing); the remaining 12 mission-critical IT systems have been renovated and validated as Year 2000 compliant. Because of a delay in the renovation of three mission-critical systems, several dates in Table 3 below are one to two months later than we reported in the September 1998 report.

Table 3

⁴ The mission-critical systems are Consolidated Application System, Time and Travel Reporting System, Time Entry, General Financial System, Salary Allocation, Bank Assessment, Lockbox, Security Authorization, Budget Code Restructure, Corporate Activities Information System, Supervisory Monitoring System, National Bank Surveillance Video Display System, and Trust Billing.

OCC Year 2000 Remediation Schedule for Mission-Critical Systems

System	Renovation	Validation	Implementation	IV&V	Certification	Contingency Plan	Trigger Date
CAS	✓	✓	✓ (04/25/98)	✓	✓ (11/12/98)	✓	1/3/2000
TTRS	✓	✓	✓ (07/28/98)	✓	✓ (11/09/98)	✓	1/3/2000
TE	✓	✓	✓ (03/20/98)	✓	✓ (11/20/98)	✓	1/3/2000
SA	✓	✓	✓ (02/28/98)	✓	✓ (10/22/98)	✓	1/5/2000
GFS	✓	✓	✓ (11/30/96)	✓	✓ (10/09/98)	✓	1/3/2000
BA	✓	✓	✓ (02/14/98)	✓	✓ (11/30/98)	✓	1/31/2000
LOCKBOX	✓	✓	✓ (02/19/98)	✓	✓ (10/09/98)	✓	1/3/2000
AZ	✓	✓	✓ (02/14/98)	✓	✓ (11/30/98)	✓	6/1/1999
BCR	✓	✓	✓ (07/24/98)	✓	✓ (11/30/98)	✓	1/3/2000
CAIS	✓	✓	✓ (11/22/98)	✓	✓ (11/30/98)	✓	1/1/2000
SMS	✓	✓	✓ (11/01/98)	✓	✓ (11/20/98)	✓	1/1/2000
NBSVDS	✓	✓	✓ (11/01/98)	✓	✓ (11/20/98)	✓	1/1/2000
Trust Billing	*	*	*	N/A	N/A	N/A	NA

- * Trust Billing was retired as of 10/31/98. Not necessary to make Y2K compliant.
- ✓ Completed, date in parentheses is actual completion date

The OCC's mission-critical IT systems exchange data with five external parties: the Federal Reserve, the Federal Deposit Insurance Corporation, the National Finance Center, Treasury, and the First National Bank of Chicago. The OCC established bridge programs for data exchanges with the National Finance Center and the First National Bank of Chicago. All of the OCC's 31 external data exchanges are Year 2000 compliant or bridges are in place for non-compliant data received from outside parties. The OCC continues to meet monthly with its primary data exchange partners to discuss project plans and testing schedules.

Non-Mission-Critical IT Systems. As of November 30, 1998, the OCC has 266 non-mission-critical IT systems, of which 19 required renovation. Of these 19 systems, 17 have been renovated, validated and implemented as Year 2000 compliant. The remaining two will be completed by January 31, 1999.

Non-IT Mission-Critical Systems. The OCC continues to monitor progress toward completion of the Renovation, Validation, and Implementation phases of Non-IT systems at all nine primary sites. The Non-IT Year 2000 Project Team conducted periodic follow-up with the building

management companies at all primary sites.⁵

The OCC notes that the building management companies at primary sites are making good progress in addressing all mission-critical systems. Delays in meeting original milestones are primarily due to the dependence of these companies on vendors and manufacturers. 25 mission-critical systems were identified and assessed. Of these systems, 13 systems are compliant and 12 systems are non-compliant. Nine of the non-compliant systems are scheduled for replacement while three are scheduled for repair. One system renovation has been completed, while the remaining 11 are currently awaiting Renovation, Validation, and Implementation. Three sites plan to meet the March 31, 1999, milestone established by the OMB for all mission-critical systems while five sites plan to meet the OMB milestone for some, but not necessarily all, of their mission-critical systems. Only one site is currently not planning to complete Renovation, Validation, and Implementation until the second or third quarter of 1999.

Business Continuity Plan

The OCC has contracted with KPMG to assist in the development of a revised Business Continuity Plan. To facilitate this effort, the OCC identified five core business processes. They include: Bank Supervision Policies and Procedures, Strategic Planning and Systemic Risk Management, Individual Bank Supervision, Enforcement, and Corporate Activities. A comprehensive work plan has been developed and includes a business impact analysis to be completed by December 31, 1998. Implementation and testing will occur in the first quarter of 1999 before the Treasury milestone of March 31, 1999.

⁵ Please note that the OCC leases all of its building facilities. Consequently, the OCC is working closely with building management at each primary site.

Contingency Planning and Testing

Business unit representatives will review all systems contingency plans in December 1998, June 1999, and November 1999 to determine if they are still operative and will sufficiently replace the automated system functions for a reasonable period of time. Business unit representatives, in collaboration with ITS staff and the OCC's CIO, will develop a testing strategy and plan for each mission-critical system contingency plan. Non-mission-critical systems with complex contingency plans and those with sufficient importance or size will also have a testing strategy and plan. The contingency plan tests will be performed during January 1999, July 1999, and December 1999.

Finally, as an additional level of safety and to ensure that connected systems function properly, the OCC plans to expand its testing efforts of each mission-critical system to conduct simultaneous agency-wide tests. By March 1999, the OCC plans to conduct tests among multiple internal mission-critical system, external parties, and infrastructure providers. We expect these tests, in addition to the tests we have done on individual or closely clustered systems, will ensure that the OCC's entire computing environment can operate properly in a forward date testing environment.